

LEGISLATIVE ALERT

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SCHIP REAUTHORIZATION ANOTHER ENTITLEMENT TRAIN WRECK (Senate Amendment to H.R. 2)

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The Senate-passed version of the children's health insurance bill retains the serious flaws of previous iterations: it recklessly increases entitlement spending by \$74 billion over 10 years; repeats a bait-and-switch funding gimmick that makes a mockery of the Majority's pay-as-you-go [PAYGO] rule; crowds out private insurance; and raises taxes.

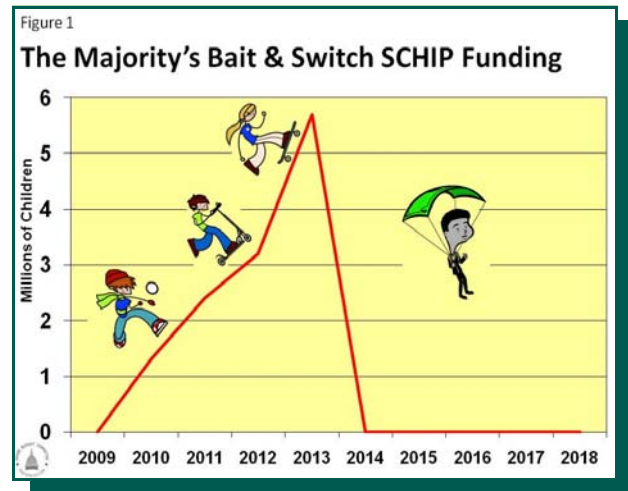
Here is how the Senate Amendment to H.R. 2, the State Children's Health Insurance Program [SCHIP] reauthorization, hastens the insolvency of Federal health care programs while expanding the government's role in medicine at the expense of patient-centered solutions.

- **Creates a New Entitlement, Worsening the Fiscal Crisis.** At the same time the President pledges to reform entitlement programs and restrain their unsustainable rate of spending, this measure exacerbates the problem.
 - Under current law, each State receives a capped SCHIP allotment from the total annual appropriation, based on a statutory formula. While the Majority's bill extends these allotments for fiscal years 2009-13, it allows them to be based on "projected spending"; therefore, if a State exceeds its allotment, it can base funding on *estimated future* expenditures rather than real costs.
 - Additionally, the Senate Amendment to H.R. 2 creates a new Child Enrollment Contingency Fund for States that exhaust their allotments by expanding coverage. The bill also allows States to expand their Medicaid Programs by matching State SCHIP spending at an increased Federal rate. The result is that SCHIP would grow at a staggering average annual rate of 23.7 percent over the next 5 years.
 - Based on the Treasury Department's financial report, the government has \$56 trillion in unfunded liabilities, mostly in the Federal Government's health care programs. Each year Congress fails to act, that long-term problem grows by \$2 trillion to \$3 trillion. This unsustainable rate of spending will smother the U.S. economy and reverse the longstanding American legacy of leaving the next generation better off. While the magnitude of the long-term fiscal impact of an SCHIP expansion remains unknown, it unquestionably adds to the unfunded liabilities of the Federal health entitlement programs, and the financial burdens being heaped on future generations.

- **Hides Deficit Spending With an SCHIP Funding Cliff.** The Majority's bill language is manipulated to hide the true cost of its entitlement expansion – by pushing enrollees over a precipitous funding “cliff” (see Figure 1).

- *Cuts SCHIP Funding by 65 Percent in 2014.* The Majority's bait-and-switch plan – repeated from H.R. 3963, the SCHIP reauthorization in the 110th Congress – dramatically increases Federal funding to enroll new children in SCHIP for the next 5 years, and then, in 2014, it abruptly *cuts SCHIP funding by 65 percent*.

- *Budget Gimmicks.* Specifically, the bill authorizes \$14.4 billion during the first 6 months of 2013; then slashes the amount to \$3 billion for the second 6 months of that year; and then assumes the lower level for the duration of the program. *The likelihood of all this happening is, precisely, zero.* While this reduction would not actually take effect, it is used as a gimmick to generate unrealistic “savings” to give the illusion of complying with the Majority's PAYGO rule.



- **Misleads Either Taxpayers or Children.** This spending gimmick will lead to either one of the following outcomes:

- *Option 1: Force Children Off of SCHIP and Onto Medicaid – and Hike Medicaid Spending.* With its front-loaded spending, the bill draws millions of children into the SCHIP program – though many of them already have health insurance today. Then by cutting the funding in 2014, the Majority yanks the rug out from under these children, depriving them of any health coverage at all. States will respond by moving those children into Medicaid, resulting in a \$22-billion expansion of a program in dire need of reform.

- *Option 2: Deceive Taxpayers About the Cost of the Plan.* The bill purposely misleads American taxpayers by “fudging” the actual 10-year cost of its entitlement expansion plan with a funding cliff. If SCHIP enrollees are not forced off the SCHIP program in 2014, as is unlikely to happen, the true cost of the expansion would be much greater.

- **Crowds Out Private Insurance.** Expanding SCHIP will increase the bias against private health insurance and toward government dependency by encouraging more and more individuals to obtain health coverage from the Federal Government. According to the Congressional Budget Office [CBO], this phenomenon already is occurring. CBO projects the Majority's plan will *cause 2.4 million individuals to drop their private insurance and move to government coverage*.

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- **Relies on an Unstable Tax-Increase Funding Source.** The new spending is partially offset by a tax increase of \$65 billion over 10 years, through a \$1-per-pack increase in cigarette and cigar taxes. It is important to note that the revenue estimate accompanying H.R. 2 indicates the increase in tobacco taxes raises approximately \$5.5 billion *less* than the same policy did just over a year ago (based on the Joint Committee on Taxation's revenue estimate of H.R. 3963). Because fewer and fewer persons smoke, this revenue source is constantly declining; and because a new tax on cigarettes is likely to deter sales, the efficacy of the offset is even more questionable.

This document was prepared by the Republican staff of the Committee on the Budget, U.S. House of Representatives. It has not been approved by the full committee and may not reflect the views of individual committee members.
